



THE MALTA CHAMBER

Annex E 9

Post-COVID19 Transport & Logistics
Think Tank Round Table

This exercise was carried out between June and July 2020.



Report of Committee Meetings

Meetings held: 3rd June 2020 @ 1200hrs
12th June 2020 @ 1200hrs
26th June 2020 @ 1130hrs

Participants: Konrad Pule (Malta Public Transport), Gordon Farrugia (First Car Rentals), Matthew Bezzina (ECabs), Franco Azzopardi (Express Trailers), Stanley Bugeja (DC Aviation), Michael Debono (Debono Group), Marcus Motschenbacher (Lufthansa Technik), Laura Jasenite (Cool), Alan Borg (Malta International Airport), Ernest Sullivan (Malta Motorways of the Sea).

In Attendance: Kevin Mizzi (KM)



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Briefing Note

Review of Post-COVID Recovery Scenarios

A realistic conclusion would be that the sector, which is diversified in nature, looks at Scenario 2 with some inclination towards Scenario 4, deriving mostly from the uncertainty in demand and external response.

Inclination towards Scenario 2:

- Land transport (rentals)
- Land transport (public transport)
- Tourism Aviation
- Maritime
- Logistics

Inclination towards Scenario 4:

- Business Aviation
- Aviation Maintenance

Context

The COVID pandemic has kickstarted a change in attitude and behaviour toward sustainability including that of individual people, businesses and governments around the world. As a result of the pandemic, mobility was severely restricted on international and national levels, yet people were able to adapt. New opportunities emerged like delivery platforms, and remote working and learning. Businesses accelerated their plans and adapted their models to compete in their respective markets.

It is important to remember that transport-related emissions in Europe represent 25% of total greenhouse gas emissions, and these need to be brought down by 90% by 2050. This includes road transport at 72%, aviation at 14%, and maritime at 13%. Malta is lagging behind and completely off target with an increase of +2.3% between 1990-2017 as opposed to -23% in the EU.

Besides this, the cost of traffic congestion is estimated at a staggering €400m per year with recent surveys showing that transport and infrastructure is one of the major concerns of businesses. All of this should put sustainable mobility at the very top of the agenda of our policy makers.

It is also very important for government to recognise and act now with regard to governance. The scenarios discussed assume that there will not be any other shocks to the economy. However the risk of the Moneyval report is real and imminent, and it must immediately be given due consideration.

Businesses must be assured in no uncertain terms, that Malta is committed to resolve the issues in time by making clear reference to the solutions being implemented for added transparency and credibility. Investors are looking very closely at how things are progressing. The risk of potentially being downgraded, is already a factor that may be detracting potential future investment in Malta and increasing the cost of capital which will be detrimental to the economy and stakeholders.



Impact of Pandemic

The passenger transport sector has been severely impacted by the pandemic due to restrictions on international and local travel. Demand for passenger land transport reduced by 80% with even higher reductions in air transport. On the other hand, goods transport including maritime transportation suffered lower, yet still significant reductions. The reductions may actually be more severe in the summer months due to seasonality for those that have a high dependency on incoming tourism.

The sector expects the situation to improve slowly. There appears to be general consensus that the industry will start at what is referred to as Scenario 4, but shifting toward Scenario 2 over the next two years therefore experiencing reductions of between 20% and 40% of 2019 levels. However, some businesses believe this to be too optimistic, and see a Scenario 4 or even 5 remaining more likely due to the imbalance between supply and demand for the services with potential reductions of up to 50% in demand.

Due to the overall economic impact on consumer behaviour, those businesses with higher priced products (like taxis) may experience a slower recovery whereas lower priced products (like collective and shared transport) would experience a more rapid recovery. The counter-argument is that consumers might perceive collective transportation to be of a higher risk than individual transportation. Therefore there is still a lot of uncertainty as to how consumers will behave.

In the aircraft maintenance industry, the situation is most likely Scenario 4 given the significantly lower demand for air passenger transport, possibly resulting in airlines using newer fleets to minimise cost therefore reducing the need for maintenance, repairs and overhauls by around 50%.

The business aviation sector also shared the same view on Scenario 4 given that there will most likely be a change in business peoples' travel patterns, resorting more to video-conferencing as a more cost-effective way to "meet" rather than travel. On the other hand, there could be an opportunity for new customers to start using business travel rather than commercial airlines.

There was also consensus that whilst the short-term measures put in place by government to support businesses do help, there is a lack of strategic medium to long-term measures which are critical for the country to remain competitive. The country's economy is an open economy and very heavily dependent on tourism which will take 2-3 years to reach pre-pandemic levels. Therefore the impact on the sector will be long-lasting.

Resilience and Sustainability

Most businesses scored quite low in this area averaging at 5 points out of 10 for resilience and 3 out of 10 on business sustainability mostly because of being heavily resource and asset based, and highly vulnerable to drops in demand. The maritime sector on the other hand scored higher at 8 and 7 respectively.

Even with the easing of restrictions, the attitude of people and businesses towards mobility will change, and this will have a permanent impact on the industry. Whilst this offers an opportunity from an environmental point of view, and this should in no way be underestimated as it has direct economic benefits, most businesses operating in the passenger transport sectors depend on high volumes, possibly with very low margins. This, combined with the increase in costs due to cleaning and sanitisation, make profitability more challenging in the next 2-3 years posing a risk on the sustainability of various businesses.

The chances of businesses operating in this sector that may go bankrupt is relatively high given the steep increase in supply that has occurred over the last 3-5 years. Businesses have invested in additional



fleets, machinery, technology and resources which require large volumes to remain sustainable due to low margins.

Businesses operating in the maritime sector depend on what the country imports and exports. With a reduced overall consumption level, this puts a number of businesses, particularly the smaller ones, at great risk. This is also felt in the logistics and distribution sector especially where businesses are under-capitalised.

There are many small players particularly in the cab/taxi sector which will be negatively impacted and will require government support possibly beyond the end of this year. Car hire companies may risk bankruptcy due to their high asset-based costs for which very low support has been offered by government. Whilst the larger companies are not at risk of bankruptcy, government support must continue to ensure that they are able to remain competitive. In the Airline maintenance, repair and overhaul (MRO) industry, it is expected that 20% of companies will not make it which is why government support is essential in this area too.

The aviation sector in Malta has grown significantly in the past two decades, even more so in the last 10 years with the introduction of the low-cost airlines. This has had an impact on our national carrier which has seen a significant increase in competition and thus a natural decline in market share (29% as at 2019). This is a risk that cannot be underestimated and must be addressed by government now.

Agility, Quality, Value and Competitiveness

There were different ratings depending on the sector. In the aviation and maritime sectors, ratings averaged at between 7 and 8 points out of 10. On the other hand, in land transport, the average rating was of 5 points. Whilst it was recognised that there were significant improvements in the last five years, in the eyes of the customer, there is still much more to be achieved.

The impact of traffic congestion is felt. This, combined with the lack of policies that favour alternate and efficient modes of transport, have an impact on punctuality and customer experience, which put Malta at a disadvantage when compared to other countries.

There is also a lack of space within which the logistics sector can operate. The footprint of Malta is what it is. Consumption is a function of population which requires space. Hubbing volumes require inventory turnover of at least five times a year which require trailers on the road which in turn require roads and trailer parks. Government needs to change policy with regard to logistics to support economic growth.

On the cost side, businesses are experiencing an upward trend in various areas which is jeopardising their ability to compete, which when combined with the lack of enforcement and proper regulation, poses significant risks on businesses.

Higher levels of demand would translate into higher re-investment in quality which would benefit the industry and “Product Malta” in general.

Governance

Most businesses in the land transport sector rated this as very low at 3 points or below due to low level of enforcement. This created situations where competitors were undercutting price and quality because they were able to get away with breaching fiscal and sector specific regulations to the detriment of the reputation of the sector and the consumer.



Higher regulated businesses like business aviation, aviation maintenance and public transport (due to the public service obligation), rated this higher at between 6 and 9 points.

Recommendations & Opportunities

Businesses operating in this sector identified various areas where improvements can be made. In the land transport sector, the biggest improvements were seen to be made in sustainability, governance, quality and competitiveness. In the aviation sector, the biggest improvements were expected in resilience, sustainability and competitiveness, whereas in the maritime sector, the biggest expected improvement was in value.

Strategic Economic Vision

1. Government must act now in an effective manner to address the potential risk of Malta's reputation being downgraded and grey-listed.
2. Businesses and policy makers need to look beyond the next two years and focus on an overall economic vision with clear priorities. Malta needs to recover even stronger than before in terms of quality, governance and competitiveness. It needs to attract higher quality tourists yet retaining the levels that are required to sustain the growth of the Maltese economy beyond 2022. This must form part of a holistic economic policy to position Malta as the best and safest destination in the Mediterranean since competition for European tourists will be fierce.
3. Government needs to be selective in identifying high quality investment (both local and foreign), and identifying new economic activities that add value without sacrificing the Malta product (like the environment) and also people's quality of life.
4. Authorities should take stock of the Transport Master Plan 2025 and the Strategic Plan 2050 that they themselves prepared and be held accountable for the progress they were meant to have achieved so far. Modal shift and a reduced carbon footprint per person should be measured regularly with specific targets.

Human Resources

1. Offer incentives to businesses for training and re-skilling of people especially during times of lower activity. Employees may be resistant to change, so these incentives are necessary to educate.
2. Sustain some level of wage support for hardest hit businesses in transport sector beyond 2020 to enable companies to retain the talent they have built over the years, including foreign workers, to eventually sustain our economy from a productivity and consumption aspect.
3. Government should take stock of its strategy with regard to public sector employment taking into consideration productivity and performance-based salaries, head-count control, and sensitivity to the impact that public sector employment in general has on the private sector.



Government Investment

1. The local tourism sector and the country need a strong and viable airline. This is the right moment to restructure Air Malta, rethink its business model and make it more financially viable to grow its market share.
2. Reconsider major transport infrastructure projects and divert funds toward more efficient and realistically achievable transport solutions in the medium term, with people at the heart of the solution. Focus more on investing in infrastructure for public transport, school transport, car rental and sharing, bicycles, kick scooters, and walking.
3. Investing in some form of mass rapid transit solution can reduce journey times by half and free up people's time for more economic productivity or leisure. This need not take the form of large-scale projects and can instead start with medium-sized solutions combining technology, infrastructure and more on-demand and real-time services. People want flexibility and this can be achieved with an attractive and efficient inter-modal service with increased capacity, shorter journey times and higher quality.

Boost Private Investment

1. Incentives for capital expenditure by the tourism industry which will allow players to reactivate or continue their investment plans resulting in a strong cash injection in the local economy and an improvement in quality.
2. Incentives for investment in technological solutions and cleaner fleets to improve quality and competitiveness on an international level.
3. Launch public-private partnerships to create new underground parking spaces so that on-street parking is relocated, therefore freeing up space from the road and allocating it to more efficient and cleaner modes of transport including public transport, motorcycles, bicycles, scooters and walking. This can be integrated with park and ride services where necessary or adequate walking and cycling infrastructure including sharing platforms, for people to move around efficiently.
4. Support businesses by providing space to be used to consolidate their operation close to the airport and park vehicles, therefore improving on efficiencies and costs. This can be supported by private investment in the use of technology to improve customer experience. Similar support schemes should be considered for the logistics sector.
5. Incentives for digitisation and R&D for businesses to not only continue with their plans, but to stimulate even more investment in this area.

Governance

1. A more effective enforcement of fiscal and transport legislation is required to grow a more "compliant culture" within the country. The industry needs to be able to bank on good faith to address rampant abuse, tax evasion, unfair competition, and inequality, particularly in land transport.
2. More effective and visible enforcement of existing transport regulations should take place as this will lead to less road accidents and less delays on our roads therefore contributing positively toward the economy.



Government Policy – Influence Consumer Behaviour

1. Exploit the opportunities that have arisen due to the changes in attitude and behaviour towards mobility by people and businesses. Many have realised that adapting their lifestyles or work practices may not be that hard, but they will still require some nudges which may take the form of incentives on remote working, remote learning, digitisation, and travelling outside peak-times. These will reduce the strain on our infrastructure and the environment, and also reduce the cost of traffic congestion.
2. Make available funds in a mobility e-wallet where people can use these funds on various transport modes other than private cars. These funds would translate into higher benefits where lower emissions are concerned, therefore making people more aware and efficient when it comes to their individual carbon footprint. This would translate in exponential economic and environmental benefits (decarbonisation) and can take into account teleworking, peak time travel, and other nudges required for people to change their behaviour and lifestyle.
3. Encourage businesses to move less in the first place by promoting a more centralised delivery process across the islands (like a “mini-amazon”) to reduce distribution costs and reduce the impact on traffic congestion and the environment.
4. Adapt regulatory and policy frameworks to become more of an enabler rather than restricting creative and new solutions. Businesses should be able to be more agile and flexible to adapt their business to the market needs. There should be a strong focus on reducing bureaucracy to a bare minimum to improve the overall level of service and also reduce cost.